

CALIFORNIA HOUSING FINANCE AGENCY
(A Component Unit of the State of California)

SINGLE AUDIT REPORT
June 30, 2013

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
California Housing Finance Agency
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the California Housing Finance Agency (the Agency), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 11, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
California Housing Finance Agency
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited California Housing Finance Agency's (the Agency) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2013. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-01. Our opinion on each major federal program is not modified with respect to this matter.

The Agency's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-01, that we consider to be a significant deficiency.

The Agency's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities of the Agency as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated October 11, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 11, 2013

CALIFORNIA HOUSING FINANCE AGENCY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Section 8 Housing Assistance Payment Program	14.195	\$ 64,147,259
Department of Agriculture		
National Foreclosure Mitigation Counseling	21.000	<u>2,501,792</u>
Total Federal Financial Awards		<u>\$ 66,649,051</u>

See accompanying note to the schedule.

CALIFORNIA HOUSING FINANCE AGENCY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the California Housing Finance Agency (the Agency), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some of the amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies or other entities are included in the schedule.

This information is an integral part of the accompanying schedule.

**CALIFORNIA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs

Name of Federal Program	CFDA Number	Expenditures
Section 8 Project-Based Cluster	14.195	\$ 64,147,259

Dollar threshold used to distinguish between type A and type B programs \$1,999,472

Auditee qualified as low-risk auditee? Yes No

CALIFORNIA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

Finding 2013-01: U.S. Department of Housing and Urban Development, Section 8 Project-Based Cluster, CFDA # 14.195, Cash Management

Condition/Context

13 of the 18 federal draws tested for Housing Assistance Payments paid out to Projects between July 1, 2012 – June 30, 2013 were disbursed more than three business days after the receipt of the funds. The time frame ranged from seven to ten days.

Criteria

24 CFR 85.21 describes the methods under which Federal agencies will pay grantees and how the grantees make payments to contractors. Section 85.21(b) states "Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205."

Cause

The Agency deposits these federal funds into several different accounts and performs reconciliations before these funds are passed through to the Projects.

Effect

The Agency has not complied with cash management procedures established by the U.S. Treasury.

Questioned Costs

Not determined.

Recommendation

We understand that management revised the process to mitigate this issue. Our testing identified no exceptions after the March 2013 implementation date of their revised procedures.

Management's Response

The Agency has taken the corrective action necessary to address the issue and has been in compliance with the cash management procedures established by the U.S. Treasury since March 2013.

CALIFORNIA HOUSING FINANCE AGENCY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Finding 2012-01: U.S. Department of Housing and Urban Development, Section 8 Project-Based Cluster, CFDA # 14.195, Cash Management

Condition/Context

All 15 federal draws tested for Housing Assistance Payments paid out to Projects between July 1, 2011 – June 30, 2012, were disbursed more than three business days after the receipt of the funds. The time frame ranged from seven to eleven days.

Status

A similar finding was noted during fiscal year 2013. See Finding 2013-01.